

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Dear Applicant:

We have considered your application for recognition of exemption from Federal Income Tax under section 501(c)(2) of the Internal Revenue Code.

The information submitted discloses that you were incorporated on [REDACTED] under the nonprofit corporation laws of the State of [REDACTED].

Your application Form 1024 and your Articles of Incorporation indicate that your purpose is to act as a title holding corporation for property used by the [REDACTED]. Each local council of the [REDACTED] is prohibited, by Supreme charter, from holding real property. This organization has secured the land and built the building which serves as the home of the council.

Your activities consist of collecting rent for the use of the facility and, in turn, paying all the debts in connection with the building. Also, your organization runs a catering business and conducts bingo games to earn additional revenue. Both the catering and the bingo games are quite extensive and your primary source of income is from these activities. In the year which ended [REDACTED], your total income was \$[REDACTED]. Catering produced \$[REDACTED] of the total which constitutes [REDACTED]% and the bingo operation produced \$[REDACTED] which constitutes [REDACTED]%.

Section 501(c)(2) of the Internal Revenue Code provides exemption from Federal Income Tax for corporations organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to an organization which itself is exempt under section 501(a).

Section 1.501(c)(2)-1 of the Income Tax Regulations states:

(a)

A corporation described in section 501(c)(2) and otherwise exempt from tax under section 501(a) is taxable upon its unrelated business taxable income. For taxable years beginning before January 1, 1970, see section 1.511-2(c)(4). Since a corporation described in section 501(c)(2) cannot be exempt under section 501(a) if it engages in any business other than that of holding title to property and collecting income therefrom, it cannot have unrelated business taxable income as defined in section 512 other than income which is treated as unrelated business taxable income solely because of the applicability of section 512(a)(3)(C); or debt financed income which is treated as unrelated business taxable income solely because of Section 514; or certain interest, annuities, royalties or rents which are treated as unrelated business taxable income solely because of section 512(b)(3)(B)(ii) or (13). Similarly, exempt status under section 501(c)(2) shall not be affected where certain rents from personal property leased with real property are treated as unrelated business taxable income under section 512(b)(3)(A)(ii) solely because such rents attributable to such personal property are more than incidental when compared to the total rents received or accrued under the lease, or under section 512(b)(3)(B)(i) solely because such rents attributable to such personal property exceed 50% of the total rents received or accrued under the lease.

(b)

A corporation described in section 501(c)(2) cannot accumulate income and retain its exemption, but it must turn over the entire amount of such income, less expenses, to an organization which is itself exempt from tax under section 501(a)

Your organization devotes the majority of its time and receives the majority of its income from activities other than holding title to property.

Since you are not a corporation organized and operating for the exclusive purpose of holding title to property for an organization that has established an exemption from Federal Income Tax and turning over your receipts, less expenses, to such organization, it is our conclusion that you do not qualify for exemption from Federal Income Tax as a holding company described in section 501(c)(2) of the 1954 Code.

You are required, therefore, to file Federal Income Tax Returns on Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after you have submitted your brief to the Chicago District Office and we have had an opportunity to consider the brief and it appears that the conclusions reached are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of Attorney and evidence of enrollment to practice must be met. We have enclosed Publication 892, Exempt Organization Appeal Procedures for Adverse Determinations, which explains in detail your rights and procedures.

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Code provides, in part, that "A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service."

If you agree with this determination, please sign and return the enclosed Form 6018.

Sincerely Yours,

District Director

Enclosures: Form 6018  
Publication 892